

CITY OF VICTORIA, KANSAS

Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2010

CITY OF VICTORIA, KANSAS
Financial Statements With Independent Auditors' Report
For the Year Ended December 31, 2010

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CITY OF VICTORIA, KANSAS
Financial Statements With Independent Auditors' Report
For the Year Ended December 31, 2010

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Victoria, Kansas
Victoria, Kansas

We have audited the accompanying financial statements of **City of Victoria, Kansas**, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of **City of Victoria, Kansas'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, **City of Victoria, Kansas** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **City of Victoria, Kansas**, as of December 31, 2010, or changes in its financial position for the year then ended. Further, **City of Victoria, Kansas** has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **City of Victoria, Kansas**, as of December 31, 2010, and their respective cash receipts and disbursements and budgetary results for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011, on our consideration of **City of Victoria, Kansas'** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Victoria, Kansas

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September 19, 2011

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **City of Victoria, Kansas'** financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

September 19, 2011

CITY OF VICTORIA, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Categories							
General Fund							
General Fund	\$ 286,695	-	484,932	436,443	335,184	12,847	348,031
Special Revenue Funds							
Employee Benefit Fund	7,426	-	67,937	64,494	10,869	-	10,869
Special Highway Fund	2,878	-	32,213	33,433	1,658	2,601	4,259
Special Machinery Fund	70,791	-	-	-	70,791	-	70,791
Special Park and Recreation Fund	10,179	-	-	-	10,179	-	10,179
Equipment Reserve Fund	63,659	-	25,000	50,151	38,508	23,820	62,328
Capital Improvements Fund	139,938	-	83,284	3,884	219,338	-	219,338
Capital Project Fund							
Water Line Replacement Fund	-	-	396,292	396,292	-	-	-
CDBG Water Project Fund	-	-	493,000	493,000	-	-	-
Debt Service Fund							
Bond and Interest Fund	15,210	-	67,910	57,547	25,573	-	25,573
Proprietary Fund Category							
Enterprise Funds							
Water Utility Fund	32,456	-	180,299	153,582	59,173	5,278	64,451
Sewer Utility Fund	138,651	-	108,023	118,752	127,922	3,738	131,660
Refuse Utility Fund	45,348	-	93,933	102,039	37,242	3,994	41,236
Total Reporting Entity	\$ 813,231	-	2,032,823	1,909,617	936,437	52,278	988,715
Composition of Cash					Checking Accounts	\$	701,613
					Money Market Accounts		39,001
					Certificates of Deposit		248,101
					Total Reporting Entity	\$	988,715

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2010

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Fund Categories					
General Fund					
General Fund	\$ 506,000	-	506,000	436,443	(69,557)
Special Revenue Funds					
Employee Benefit Fund	70,000	-	70,000	64,494	(5,506)
Special Highway Fund	35,528	-	35,528	33,433	(2,095)
Special Park and Recreation Fund	4,433	-	4,433	-	(4,433)
Debt Service Fund					
Bond and Interest Fund	73,284	-	73,284	57,547	(15,737)
Proprietary Fund Category					
Enterprise Funds					
Water Utility Fund	147,677	40,755	188,432	153,582	(34,850)
Sewer Utility Fund	237,598	-	237,598	118,752	(118,846)
Refuse Utility Fund	122,174	-	122,174	102,039	(20,135)

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 274,475	271,328	274,514	(3,186)
Delinquent	3,040	5,309	-	5,309
Motor Vehicle	43,814	41,678	37,236	4,442
Slider	1,894	-	-	-
Total Taxes	323,223	318,315	311,750	6,565
Intergovernmental				
Local Sales Tax	46,712	78,104	50,000	28,104
Licenses and Permits				
Zoning Fees	120	180	-	180
Franchise Fees	68,631	69,764	30,000	39,764
Licenses and Permits	4,960	4,009	3,000	1,009
Total Licenses and Permits	73,711	73,953	33,000	40,953
Fines and Forfeitures				
Fines	2,865	3,165	2,000	1,165
Use of Money and Property				
Interest	967	823	4,000	(3,177)
Swimming Pool	4,636	4,693	4,000	693
Miscellaneous	7,102	5,879	-	5,879
Total Use of Money and Property	12,705	11,395	8,000	3,395
Total Cash Receipts	459,216	484,932	404,750	80,182
Expenditures				
General Government				
Personal Services	21,381	23,817	25,000	(1,183)
Commodities	11,075	8,488	10,000	(1,512)
Contractual Services	25,690	38,718	22,000	16,718
Capital Outlay	2,457	-	4,000	(4,000)
Total General Government	\$ 60,603	71,023	61,000	10,023

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Expenditures (continued)				
Police Department				
Personal Services	\$ 91,907	105,015	110,000	(4,985)
Commodities	11,753	13,226	12,000	1,226
Contractual Services	9,655	7,306	12,000	(4,694)
Capital Outlay	6,630	5,840	5,000	840
Total Police Department	119,945	131,387	139,000	(7,613)
Fire Department				
Personal Services	9,289	10,490	12,000	(1,510)
Commodities	4,117	9,920	8,000	1,920
Contractual Services	3,119	6,915	5,000	1,915
Capital Outlay	-	5,305	5,000	305
Total Fire Department	16,525	32,630	30,000	2,630
Park Department				
Personal Services	20,030	19,328	22,000	(2,672)
Commodities	3,494	2,484	4,000	(1,516)
Contractual Services	1,391	1,286	1,000	286
Capital Outlay	138	318	3,000	(2,682)
Total Park Department	25,053	23,416	30,000	(6,584)
Street Department				
Personal Services	12,345	13,709	12,000	1,709
Commodities	2,132	1,809	6,000	(4,191)
Contractual Services	6,446	2,206	12,000	(9,794)
Capital Outlay	4,128	-	35,000	(35,000)
Total Street Department	25,051	17,724	65,000	(47,276)
Street Lighting				
Contractual Services	16,533	15,949	22,000	(6,051)
Pool Department				
Personal Services	13,399	15,572	16,000	(428)
Commodities	8,656	4,373	8,000	(3,627)
Contractual Services	954	2,162	2,500	(338)
Capital Outlay	-	-	2,000	(2,000)
Total Pool Department	\$ 23,009	22,107	28,500	(6,393)

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Expenditures (continued)				
Planning Commission				
Personal Services	\$ 1,836	2,097	2,000	97
Commodities	-	-	500	(500)
Contractual Services	506	172	500	(328)
Total Planning Commission	2,342	2,269	3,000	(731)
Victoria Health Facility	17,015	18,438	26,000	(7,562)
Herzogfest	1,500	1,500	1,500	-
Industrial Development	1,000	1,000	1,000	-
Transfers Out	99,000	99,000	99,000	-
Total Expenditures	407,576	436,443	506,000	(69,557)
Cash Receipts Over (Under) Expenditures	51,640	48,489		
Unencumbered Cash - Beginning	235,055	286,695		
Unencumbered Cash - Ending	\$ 286,695	335,184		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Employee Benefit Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 52,337	58,656	59,343	(687)
Delinquent	676	1,064	-	1,064
Motor Vehicle	8,490	8,003	7,100	903
Slider	361	-	-	-
Miscellaneous	-	214	-	214
Total Cash Receipts	61,864	67,937	66,443	1,494
Expenditures				
Personal Services	64,342	64,494	70,000	(5,506)
Cash Receipts Over (Under) Expenditures	(2,478)	3,443		
Unencumbered Cash - Beginning	9,904	7,426		
Unencumbered Cash - Ending	\$ 7,426	10,869		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Intergovernmental				
State Gasoline Tax	\$ 30,216	32,213	34,530	(2,317)
Reimbursements	633	-	-	-
Total Cash Receipts	<u>30,849</u>	<u>32,213</u>	<u>34,530</u>	<u>(2,317)</u>
Expenditures				
Personal Services	18,659	15,092	10,000	5,092
Commodities	3,400	5,482	5,000	482
Contractual Services	6,912	12,859	3,896	8,963
Capital Outlay	-	-	8,000	(8,000)
Transfers Out	-	-	8,632	(8,632)
Total Expenditures	<u>28,971</u>	<u>33,433</u>	<u>35,528</u>	<u>(2,095)</u>
Cash Receipts Over (Under) Expenditures	1,878	(1,220)		
Unencumbered Cash - Beginning	<u>1,000</u>	<u>2,878</u>		
Unencumbered Cash - Ending	\$ <u>2,878</u>	<u>1,658</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Machinery Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
	<u> </u>	<u> </u>
Cash Receipts	\$ -	-
Expenditures	<u>-</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	<u>70,791</u>	<u>70,791</u>
Unencumbered Cash - Ending	\$ <u><u>70,791</u></u>	<u><u>70,791</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Special Park and Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts	\$ -	-	-	-
Expenditures				
Capital Outlay	-	-	4,433	(4,433)
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	10,179	10,179		
Unencumbered Cash - Ending	\$ 10,179	10,179		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Equipment Reserve Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	<u>Prior Year Actual</u>	<u>Current Year Actual</u>
Cash Receipts		
Transfers In	\$ 74,000	25,000
Expenditures		
Capital Outlay	<u>99,836</u>	<u>50,151</u>
Cash Receipts Over (Under) Expenditures	(25,836)	(25,151)
Unencumbered Cash - Beginning	<u>89,495</u>	<u>63,659</u>
Unencumbered Cash - Ending	\$ <u><u>63,659</u></u>	<u><u>38,508</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Capital Improvements Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 25,000	74,000
State Grant	9,284	9,284
Total Cash Receipts	34,284	83,284
Expenditures		
Capital Outlay	33,895	3,884
Cash Receipts Over (Under) Expenditures	389	79,400
Unencumbered Cash - Beginning	139,549	139,938
Unencumbered Cash - Ending	\$ 139,938	219,338

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Water Line Replacement Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Loan Proceeds	\$ 38,300	396,292
Expenditures		
Contractual Services	38,300	396,292
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	\$ -	-

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
CDBG Water Project Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	<u>Prior Year Actual</u>	<u>Current Year Actual</u>
Cash Receipts		
Federal Grant	\$ 5,000	493,000
Expenditures		
Contractual Services	<u>5,000</u>	<u>493,000</u>
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	<u>-</u>	<u>-</u>
Unencumbered Cash - Ending	\$ <u><u>-</u></u>	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Bond and Interest Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes				
Ad Valorem	\$ 39,133	44,419	44,942	(523)
Delinquent	723	1,074	-	1,074
Motor Vehicle	6,451	5,968	5,308	660
Slider	270	-	-	-
Special Assessments	8,303	16,449	12,500	3,949
Bond Proceeds	415,000	-	-	-
Interest	107	-	-	-
Total Cash Receipts	469,987	67,910	62,750	5,160
Expenditures				
Principal	435,000	45,000	40,000	5,000
Interest	23,750	12,547	18,284	(5,737)
Issuance Costs	12,867	-	-	-
Cash Basis Reserve	-	-	15,000	(15,000)
Total Expenditures	471,617	57,547	73,284	(15,737)
Cash Receipts Over (Under) Expenditures	(1,630)	10,363		
Unencumbered Cash - Beginning	16,840	15,210		
Unencumbered Cash - Ending	\$ 15,210	25,573		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

Water Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Water Sales	\$ 116,482	152,255	111,500	40,755
Special Assessments	17,048	16,873	17,000	(127)
Water Taps	450	-	500	(500)
Late Charges	3,029	3,897	1,000	2,897
Interest	5,216	2,289	1,000	1,289
Water Protection Fee	1,060	1,158	1,200	(42)
Revolving Loan Proceeds	29,700	-	-	-
Miscellaneous	3,545	3,827	-	3,827
Total Cash Receipts	<u>176,530</u>	<u>180,299</u>	<u>132,200</u>	<u>48,099</u>
Expenditures				
Personal Services	70,645	75,578	70,000	5,578
Commodities	51,965	49,602	35,000	14,602
Contractual Services	49,405	15,849	24,677	(8,828)
Capital Outlay	8,250	9,231	18,000	(8,769)
Revolving Loan Payments	-	3,322	-	3,322
(a) Adjustment for Qualifying Budget Credit	-	-	40,755	(40,755)
Total Expenditures	<u>180,265</u>	<u>153,582</u>	<u>188,432</u>	<u>(34,850)</u>
Cash Receipts Over (Under) Expenditures	(3,735)	26,717		
Unencumbered Cash - Beginning	<u>36,191</u>	<u>32,456</u>		
Unencumbered Cash - Ending	\$ <u>32,456</u>	<u>59,173</u>		
(a) Adjustment for Qualifying Budget Credit				
Utility Sales Over Amount budgeted			\$ 40,755	

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Sewer Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Sewer Service Charges	\$ 112,629	106,673	120,000	(13,327)
Miscellaneous	624	1,350	-	1,350
Total Cash Receipts	<u>113,253</u>	<u>108,023</u>	<u>120,000</u>	<u>(11,977)</u>
Expenditures				
Personal Services	35,049	37,141	35,000	2,141
Commodities	16,458	7,589	20,000	(12,411)
Contractual Services	3,193	2,713	10,000	(7,287)
Capital Outlay	-	-	101,289	(101,289)
Revolving Loan Principal	45,680	47,241	47,241	-
Revolving Loan Interest	23,740	22,293	22,293	-
Revolving Loan Service Fees	1,890	1,775	1,775	-
Total Expenditures	<u>126,010</u>	<u>118,752</u>	<u>237,598</u>	<u>(118,846)</u>
Cash Receipts Over (Under) Expenditures	(12,757)	(10,729)		
Unencumbered Cash - Beginning	<u>151,408</u>	<u>138,651</u>		
Unencumbered Cash - Ending	\$ <u><u>138,651</u></u>	<u><u>127,922</u></u>		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS

Refuse Utility Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Refuse Charges	\$ 96,096	93,933	96,000	(2,067)
Expenditures				
Personal Services	41,949	48,196	40,000	8,196
Commodities	3,589	4,810	5,000	(190)
Contractual Services	48,781	45,449	50,000	(4,551)
Capital Outlay	-	3,584	27,174	(23,590)
Total Expenditures	94,319	102,039	122,174	(20,135)
Cash Receipts Over (Under) Expenditures	1,777	(8,106)		
Unencumbered Cash - Beginning	43,571	45,348		
Unencumbered Cash - Ending	\$ 45,348	37,242		

The notes to the financial statements are an integral part of this statement.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Victoria, Kansas has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and a five-member council. The financial statements of the City consist of all the funds of the City that are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City has no component units.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from those estimates.

Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year ended December 31, 2010.

Governmental Fund Categories

General Fund – to account for all financial resources except those required to be reported in another fund.

Special Revenue Funds – to account for the proceeds of specific revenue sources that are legally restricted to expenditure for a specified purpose.

Debt Service Fund – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Project Funds – to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Fund Category

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments this year.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds, and the following special revenue funds: Special Machinery Fund, Equipment Reserve Fund, and Capital Improvements Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Deposits and Investments

The City follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary of cash receipts, expenditures, and unencumbered cash.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City had no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City did not use "peak periods" during 2010. All deposits were legally secured at December 31, 2010.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At December 31, 2010, the City's carrying amount of deposits was \$988,715 and the bank balance was \$1,000,291. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$659,452 was covered by federal depository insurance and \$340,839 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The City had no investments at December 31, 2010.

Compensated Absences

Vacation

The City's policy regarding vacation is that an employee must work for a period of 1 year before any vacation is accumulated at which time the employee is then allowed 10 working days. After 10 years, 1 day is accumulated for each year of service up to a maximum of 20 days. As of December 31, 2010 the maximum potential liability for accrued vacation is \$15,620.

Sick Leave

The policy regarding sick leave is that an employee can accumulate 120 days of sick leave at 12 days a year. Any accumulation is canceled upon termination of employees with less than five years of service. All full-time employees who have completed five years or more of employment will be paid for sick leave on a graduated scale to a maximum of \$2,400 after 26 years of employment. As of December 31, 2010, the potential liability for sick leave is \$2,384.

Deferred Compensation Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 457(b). Permanent and part-time employees are eligible to participate under the plan. The employee is responsible for the amount of deferred compensation to be contributed. The City is not required to make any contributions.

Defined Benefit Pension Plan

Plan Description

The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, KS 66603 or by calling 1-888-275-5737).

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2010 was 7.14%. The City's employer contributions to KPERS for the years ending December 31, 2010, 2009 and 2008 were \$19,192, \$9,083, and \$14,244, respectively, equal to the required contributions for each year as set forth by the legislature.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the City for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Special Assessments

Projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts.

Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursement as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. The City's interfund transfers and statutory authority for the year ended December 31, 2010 were as follows:

From	To	Statutory Authority	Amount
General Fund	Capital Improvements Fund	K.S.A. 12-1,118	\$ 74,000
General Fund	Equipment Reserve Fund	K.S.A. 12-1,117	25,000

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2010

NOTE 3 – CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception are as follows:

	Project Authorization	Cash Disbursements and Accounts Payable To Date
Water Line Replacement	\$ 770,000	\$ 469,462

NOTE 4 – LITIGATION

City of Victoria, Kansas is party to various legal proceedings which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 5 – RISK MANAGEMENT

City of Victoria, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, crime, workers compensation, and linebacker. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – GRANTS AND SHARED REVENUES

City of Victoria, Kansas participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

NOTE 7 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City did not meet K.S.A. 10-130 requirements that mandate all bond payments be made to the State Treasurer at least 20 days prior to the due date on the outstanding bonds.

NOTE 8 – COMPARATIVE DATA

Comparative data for the prior year has been presented in Statement 3 of the accompanying financial statements in order to provide an understanding of changes in the **City of Victoria, Kansas'** cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

CITY OF VICTORIA, KANSAS
Notes to Financial Statements
December 31, 2010

NOTE 9 – DEBT RESTRICTIONS AND CONVENANTS

KDHE Waterline Replacement Loan

City of Victoria, Kansas entered into a loan agreement with the Kansas Department of Health and Environment to fund the improvements to the waterlines in the amount of \$750,000. The loan agreement requires that the City provide for the repayment of this loan by providing dedicated funds. The City is in compliance with this requirement as of December 31, 2010 as it is providing dedicated funds through water fees.

NOTE 10 – LONG-TERM DEBT

City of Victoria, Kansas has the following types of long-term debt.

General Obligation Bonds

On October 23, 2009, **City of Victoria, Kansas** issued general obligation refunding bonds of \$415,000 (par value) with an interest rate of 1.5 - 3.9% to advance refund term bonds. The Series A refunding bonds mature on December 1, 2019, and are callable on December 1, 2014. The Series A bonds were issued at a premium, and, after paying issuance costs of \$12,867, the net proceeds were \$402,233. The net proceeds from the issuance of the general obligation bonds were used to refund the 1999 Series A term bonds. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements. As a result of the advance refunding, the economic gain to the City (difference between the present value of the debt service payments on the old and new debt) was \$33,804.

KDHE Revolving Loans

The City entered into a \$1,043,195 revolving loan agreement on September 14, 2002 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the construction of a sludge basin.

The City enacted a revolving loan agreement not to exceed \$750,000 on July 29, 2009 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the water line replacement project. The City will use proceeds generated by the operation of the facility for loan repayment. As of December 31, 2010, the City expects to make future draw downs on this revolving loan and therefore, the ending loan balance is undeterminable and no amortization schedule is available as of December 31, 2009. Therefore, the current maturities of long-term debt and interest for the next five years and in five year increments through maturity are not included in the following long-term debt schedule.

Capital Lease

The City has entered into a lease agreement with an option to purchase a fire truck at the expiration of the lease term. The lease contains a fiscal funding clause.

CITY OF VICTORIA, KANSAS

Notes to Financial Statements

December 31, 2010

NOTE 10 - LONG-TERM DEBT (continued)

Changes in long-term liabilities for the City for the year ended December 31, 2010 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Series 2009A	1.5% - 3.9%	10/15/2009	\$ 415,000	12/1/2019	\$ 415,000	-	(45,000)		370,000	12,547
KDHE Revolving Loans										
Sludge Basin Construction	Various	9/14/2002	1,043,195	9/1/2022	721,686	-	(47,241)		674,445	22,293
Water Line Replacement	Various	7/29/2009	68,170	8/1/1930	68,170	397,286	-		465,456	3,014
Capital Lease										
Fire Truck	5.00%	06/01/07	143,999	06/01/12	71,706	-	(22,747)		48,959	3,613
Total Contractual Indebtedness					1,276,562	397,286	(114,988)		1,558,860	41,467
Compensated Absences					15,341			2,663	18,004	
Total Long-Term Debt					\$ 1,291,903	397,286	(114,988)	2,663	1,576,864	41,467

CITY OF VICTORIA, KANSAS
Notes to the Financial Statements
December 31, 2010

NOTE 10 - LONG-TERM DEBT (continued)

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	Total
Principal									
General Obligation Bond - Series 2009A	\$ 45,000	45,000	40,000	40,000	40,000	160,000	-	-	370,000
Revolving Loan - Sludge Basin Construction	48,857	50,527	52,254	54,041	55,888	309,441	103,437	-	674,445
Revolving Loan - Waterline Replacement	68,096	14,635	15,192	15,770	16,370	91,684	110,509	133,200	465,456
Capital Lease	23,883	25,076	-	-	-	-	-	-	48,959
Total Principal	185,836	135,238	107,446	109,811	112,258	561,125	213,946	133,200	1,558,860
Interest									
General Obligation Bond - Series 2009A	10,538	9,772	8,940	8,020	6,940	14,860	-	-	59,070
Revolving Loan - Sludge Basin Construction	20,797	19,250	17,650	15,996	14,284	43,633	3,266	-	134,876
Revolving Loan - Waterline Replacement	13,175	13,466	12,961	12,436	11,892	50,538	33,460	12,878	160,806
Capital Lease	2,448	1,254	-	-	-	-	-	-	3,702
Total Interest	46,958	43,742	39,551	36,452	33,116	109,031	36,726	12,878	358,454
Total Principal and Interest	\$ 232,794	178,980	146,997	146,263	145,374	670,156	250,672	146,078	1,917,314

CITY OF VICTORIA, KANSAS

Supplementary Information



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and City Council
City of Victoria, Kansas
Victoria, Kansas

We have audited the financial statements of **City of Victoria, Kansas**, as of and for the year ended December 31, 2010, and have issued our report thereon dated September 19, 2011. The report on the audited financial statements was adverse because it was not presented in conformity with accounting principles generally accepted in the United States of America; however, it was unqualified as presented on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **City of Victoria, Kansas'** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **City of Victoria, Kansas'** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **City of Victoria, Kansas'** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (See 2010-A)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (See 2010-B)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Victoria, Kansas'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of **City of Victoria, Kansas** in a separate letter dated September 19, 2011.

City of Victoria, Kansas' response to the findings in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **City of Victoria, Kansas'** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass through entities, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

September 19, 2011



Certified
Public
Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and City Council
City of Victoria, Kansas
Victoria, Kansas

Compliance

We have audited **City of Victoria, Kansas'** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **City of Victoria, Kansas'** major federal programs for the year ended December 31, 2010. **City of Victoria, Kansas'** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **City of Victoria, Kansas** management. Our responsibility is to express an opinion on **City of Victoria, Kansas'** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the Kansas Municipal Audit Guide; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **City of Victoria, Kansas'** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **City of Victoria, Kansas'** compliance with those requirements.

In our opinion, **City of Victoria, Kansas** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of **City of Victoria, Kansas** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **City of Victoria, Kansas'** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **City of Victoria, Kansas'** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass-through entities, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

September 19, 2011

CITY OF VICTORIA, KANSAS
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

• Material weakness identified?	<u>X</u>	Yes	<u> </u>	No
• Significant deficiency identified?	<u>X</u>	Yes	<u> </u>	None reported
• Noncompliance material to financial statements noted?	<u> </u>	Yes	<u>X</u>	No

FEDERAL AWARDS

Internal control over major programs:

• Material weakness identified?	<u> </u>	Yes	<u>X</u>	No
• Significant deficiency identified?	<u> </u>	Yes	<u>X</u>	None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> </u>	Yes	<u>X</u>	No
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Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.255	ARRA - Community Development Block Grants-States Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$</u>	<u>300,000</u>
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Auditee qualified as low-risk auditee?	<u> </u>	Yes	<u>X</u>	No
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CITY OF VICTORIA, KANSAS
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

A. Material Weakness in Internal Control

2010-A

Criteria or specific requirement

Internal controls should be in place to ensure that employees do not have incompatible duties.

Condition

Proper segregation of duties does not exist in the accounting system.

Effect

Management may not become aware of the problems or irregularities within a timely manner.

Cause

The City is unable to hire additional personnel due to its size.

Recommendation

Procedures should be established and implemented whereby the City achieves segregation of duties in the receipts and expenditures cycles and implements additional internal control.

Views of responsible officials and planned corrective actions

The City is aware that employees have incompatible duties; however, due to the size of the City, it would not be feasible to hire additional personnel.

B. Significant Deficiency in Internal Control

2010-B

Criteria or specific requirement

City personnel responsible for the accounting and reporting function should have the necessary skills and knowledge to prepare financial statements and related footnotes in conformity with the cash basis and budget laws of the State of Kansas.

Condition

City personnel responsible for the accounting and reporting function do not have the necessary skills and knowledge to prepare the City's financial statements.

Effect

Financial transactions, financial statements, and footnotes may not properly reflect financial information in accordance with the cash basis and budget laws of the State of Kansas.

Cause

Due to the limited size of the City, it is not practical to hire fully qualified staff to the extent that they possess all of the skills required in order to apply statutory basis of accounting including relevant note disclosures.

Recommendation

Continual training of accounting personnel should be implemented to ensure financial transactions and financial statements are being presented as accurately as possible.

CITY OF VICTORIA, KANSAS
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010

Views of responsible officials and planned corrective actions

The City is aware that personnel responsible for the accounting and reporting function do not have the necessary skills and knowledge to apply statutory basis of accounting. However, due to the size and financial resources of the City, it would not be feasible to obtain the necessary training.

2010-C

Criteria or specific requirement

All commitments for purchases entered into during the calendar year should be encumbered in the year it was approved.

Condition

Not all encumbrances are being picked up at the end of the year.

Effect

Expenditures are not being charged to the fund in the proper year.

Cause

Oversight by the City's staff in recording the expenditure in the proper year.

Recommendation

Staff should review all minutes for encumbrances, as well as any invoices received at year end to ensure all encumbrances are recorded.

Views of responsible officials and planned corrective actions

The City is aware of the issue and will keep track of expenditures approved and entered into before the year end and properly record them in the correct year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No material findings or questioned costs are required to be disclosed under OMB Circular A-133.

CITY OF VICTORIA, KANSAS
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2010

The City did not have an OMB Circular A-133 audit for December 31, 2009.

CITY OF VICTORIA, KANSAS
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
U.S. Department of Commerce			
Passed through Kansas Department of Commerce			
ARRA – Safe Drinking Water State Revolving Fund	66.468	2F-97705401	\$ 141,830
U.S. Department of Housing and Urban Development			
Passed Through the Kansas Department of Commerce			
ARRA – Community Development Block Grants-States Program and Non-Entitlement Grants in Hawaii	14.255	09-RA-014	495,000
Total Expenditures of Federal Awards			\$ 636,830

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF VICTORIA, KANSAS
Notes to Schedule of Expenditures of Federal Awards
December 31, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal expenditures of **City of Victoria, Kansas**, and is presented on the basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.